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SENSITIVE
SIPDIS

DEPT FOR E(YUN), EEB/TPP/MTAA, EEB/IFD/ODF, NEA/ARP, NEA/RA
USDA FOR JOHN BREWER
NSC FOR PRADEEP RAMAMURTHY
STATE PLEASE PASS TO USTR FOR CHRIS WILSON

E.O. 12958: N/A

TAGS: [EAGR](#) [EINV](#) [ECON](#) [EAID](#) [SENV](#) [PGOV](#) [PREL](#) [SA](#)
SUBJECT: SAUDI FOREIGN AGRICULTURE INVESTMENT PLANS: OPPORTUNITIES
FOR INCREASED TRADE, ASSISTANCE, AND U.S. JOBS

Ref: A. 09 RIYADH 1447
[1](#)B. 09 RIYADH 713
[1](#)C. 09 RIYADH 575
[1](#)D. 08 RITYADH 1258
[1](#)E. 08 RIYADH 1174

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[1](#)1. (U) This is an action request for EEB and USDA. Please see
paragraph 17.

Summary and introduction

[1](#)2. (SBU) After decades of heavy support for domestic agriculture
that made this arid Kingdom one of the world's largest wheat
exporters for many years, the Saudi government has changed its focus
to implementing a new plan to enhance food security. It will do
this by phasing out wasteful agricultural subsidies and investing in
agricultural projects abroad. Saudi companies have already
announced significant investments in Sudan, Ethiopia, and Egypt.
Saudi officials have noted that the U.S. is one of the 16 countries
they have selected as priorities for investment. The SAG has
carefully selected countries to balance crops, geographic diversity,
and political risk. This initiative also offers potential areas for
cooperation on foreign assistance. It also offers an opportunity to
promote investment and job research in the U.S., which would be a
tangible demonstration of the value of outreach to the Muslim world
and offer an opportunity to broaden and deepen our strategic
relationship. End summary.

Agricultural plan moving forward successfully

[1](#)3. (SBU) Assistant DG for Foreign Trade at the Ministry of Commerce
and Industry, Taha Alshareef, explained Saudi Arabia's food security
strategy to Econcouns January 13. Alshareef said Minister of
Commerce and Industry Abdullah Alireza leads a ministerial committee
in charge of implementing the King Abdullah Initiative for Saudi
Agricultural Investment Abroad, along with the Ministers of
Agriculture, Finance, and Foreign Affairs. For his part, Alshareef
sits on the initiative's steering committee, which includes four
deputy ministers. He said several technical teams focus on specific
implementation issues, including country selection, bilateral
investment treaties, offtake agreements, financial assistance, and
strategic food reserves. Stakeholders such as host country
landowners also are included in the process, he said. Priority
countries for Saudi agricultural investment include Argentina,
Brazil, Cambodia, Canada, Ethiopia, Indonesia, Kazakhstan, Mali, the
Philippines, Senegal, Sudan, Tanzania, Turkey, Ukraine, the U.S.,
and Vietnam.

[1](#)4. (SBU) Alshareef said the Saudi government would not invest

official funds under the initiative, stressing that the private sector would either invest directly in farms or develop partnerships with farmers overseas, as best fits the condition of the country. He said the Saudi government is creating a 3 billion riyal (\$800 million) fund under the Saudi Public Investment Fund (PIF) to invest in agriculture abroad and that he is a member of its board. KPMG is the initiative's financial and administrative advisor, he said, and 16 firms have been invited to develop the company's business plan. Alshareef said the steering committee recently met with Benning & Company to discuss a proposal for construction of strategic food reserve facilities in Saudi Arabia and abroad -- a key priority under the initiative.

¶5. (SBU) Alshareef noted the original Royal Decree announcing the initiative specifically listed the United States as a country of interest, due to its annual agricultural surplus. Alshareef said officials working on the initiative wanted to send a technical team to the U.S. to explore opportunities for investment. Alshareef said that as Saudi companies identify specific opportunities, the SAG will pursue Bilateral Investment Treaties (BITs) with the specific countries in that regard. He said the SAG may be interested in concluding a BIT for agriculture with the United States.

Ag ministry touts program's foreign aid aspect

¶6. (SBU) A high-level Agriculture Ministry contact indicated to Ag Attache that an important objective of the King's initiative is helping poor African countries develop their agriculture sector. The SAG is willing to help develop infrastructure to facilitate Saudi agricultural investment in these countries more effectively. The contact said the Saudi government will make sure that a

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significant percentage of the agricultural products produced by Saudi companies abroad will be available for sale domestically at competitive prices in the countries in which the food is grown. He described the King's initiative as investing in hundreds of thousands of hectares of fertile land to produce large quantities of selected commodities to meet Saudi demand as well as to improve productivity to increase food supplies sharply in the targeted countries.

¶7. (SBU) Contacts in the Ministries of Commerce and Agriculture also told Ag Attache that Ethiopia has offered Saudi agricultural investors one million hectares of fertile farm land on a long term lease and expressed its willingness to furnish attractive investment packages to meet requirements outlined in King Abdullah's initiative.

Riyadh symposium

¶8. (SBU) On December 13, the Riyadh Chamber of Commerce and Industry hosted a symposium on Saudi Arabia's foreign agricultural investments. It was attended by Minister of Commerce and Industry Abdullah Zainal Alireza and Minister of Agriculture Fahad Bin Abdulrahman Balghunaim, as well as other senior Saudi officials, Riyadh-based diplomats, representatives of international organizations, major domestic agricultural development companies, individual investors, and academics.

¶9. (SBU) Minister Alireza inaugurated a workshop entitled "Experience, Opportunities, and Challenges in Agricultural Investment Abroad." The Minister told symposium attendees that Saudi Arabia has reached an advanced stage of negotiations with several agricultural producing countries regarding its food security plans. The Minister detailed progress that has been made since the initiative was announced in 2008. He explained that the initiative was a response to high agricultural commodity prices which prevailed in 2007 and early 2008, as well as export restrictions or bans imposed by major agricultural products exporters such as India, Russia, Argentina, and Vietnam.

¶10. (SBU) According to the Minister, the initiative is intended to prepare Saudi Arabia for any future international food crises by

providing a guaranteed food supply and maintaining sustainable living standards for the Saudi people. To achieve the Kingdom's food security requirements, Saudi investors should produce agricultural commodities in priority countries and export sufficient quantities to the Kingdom to meet domestic demand, as well as to build strategic reserves of basic food products such as rice, wheat, barley, and livestock products.

11. (SBU) The following is a detailed summary provided at the workshop of the King Abdullah Initiative. Begin text:

King Abdullah Initiative for Saudi Arabian
Agricultural Investment Abroad for Food Security

-- The plan aims to achieve food security by guaranteeing food supply for Saudi Arabia and building up strategic stock reserve levels to avoid future food crises by providing incentives to Saudi companies and individuals to invest in foreign countries that have comparative advantage in agricultural production.

-- Saudi private companies and individual investors will take the leading role in investing in strategic agricultural crops overseas. However, Saudi government funds could also consider joining hands with Saudi investors in agricultural investments abroad.

-- King Abdullah's Initiative identified countries that are rich in agricultural resources and offer investment incentives as well as enforce encouraging administrative regulations.

-- The Government will establish strategic reserves for major commodities to meet domestic demand in case of shortages in the world agricultural food supply.

-- The potential host country should allow the export of adequate quantities of produced crops to Saudi Arabia to meet its domestic consumption and to contribute in building up strategic reserve of major commodities in Saudi Arabia.

-- Saudi agricultural investments overseas will be long term commitments through different options such as land ownership, long

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term lease or joint ventures.

-- The newly established \$800 million Saudi government fund will provide credit facilities to firms that will be engaged in agricultural investments abroad. The fund will be also used to build infrastructure, if needed.

-- The host countries should allow the Saudi investors to select the agricultural crops they want to produce.

-- The Saudi government will facilitate Saudi foreign agricultural investments by negotiating and signing bilateral agreements with the selected countries to protect and facilitate Saudi investments abroad.

Strategic crops targeted

Under King Abdullah's Initiative, the Saudi government targets eight crops: rice, wheat, barley, yellow corn, soybean meal, oil seeds, sugar, and green fodder (mainly alfalfa, Rhodes Grass and Sudan Grass.) The following are estimate of annual Saudi consumption of strategic crops (in million metric tons):

Crop	Quantity
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Wheat	2.7
Barley	7.0
Yellow Corn	2.0
Soybean meal	0.8
Rice	1.3
Sugar	0.7

Agricultural processing and projects
targeted by the initiative

- Vegetable oil processing
- Concentrated animal feed production
- Construction of silos
- Seed production
- Construction of abattoirs

Ministerial committee to facilitate
Saudi agricultural investments abroad

A royal decree was issued in 2008 to form a ministerial committee (MC) led by the Minister of Commerce and Industry to implement the King Abdullah Initiative. Other members of the committee include the Minister of Agriculture, and deputy ministers from the ministries of Foreign Affairs, Finance, Agriculture, and Commerce. The MC formed a steering committee and a technical committee to initiate visits to targeted countries to evaluate investment opportunities.

The MC evaluates the following conditions to consider a country to approve for Saudi agricultural investments:

- Political and social stability.
- Legislative and organizational stability.
- Economic stability including implementation of market based economy.
- Abundance of natural resources including suitable climate, fertile land, and abundance of water resources.
- Availability of labor at competitive cost.
- Strategic location of a country, which includes proximity to Saudi Arabia, to reduce transportation time and cost.
- Existence of laws/regulations that fight administrative corruption.
- Availability of attractive incentives for investors.
- Clear and transparent investment regime.
- Strong political relationships with Saudi Arabia.

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- Exemption from paying customs fees on equipment and other products required for agricultural investment.
- Exemption from income tax on agricultural production and processing for reasonable period.
- Guaranteed right to export to the Kingdom of adequate quantities of agricultural commodities produced by Saudi companies to cover consumption and build up strategic reserve.
- Assurances for Saudi investors to choose among eight targeted commodities for foreign investments
- Possibility of long-term investment through land ownership or long term land lease.
- Willingness to sign binding bilateral agreement to protect and guarantee long term Saudi agricultural investments.
- Guaranteed availability of all needed agricultural investment resources including fertile land and abundant water resources that will allow production of large quantities of some of the strategic crops such as rice and wheat at sufficient quantity and at low and stable prices.

Countries targeted

King Abdullah's Initiative currently targets the following six countries: China, India, Mali, Senegal, the U.S., and Ukraine. The MC has the authority to suggest additional potential countries.

Additional countries included

The Saudi MC added another 15 countries to the list of targeted countries after conducting feasibility studies regarding agricultural investment opportunities of each country. The countries are Canada, Pakistan, Turkey, Ethiopia, Poland, Sudan, Indonesia, Vietnam, the Philippines, Myanmar, Kazakhstan, Romania, Uruguay, Brazil and Argentina.

Countries visited by the MC

Since King Abdullah's Initiative was announced in 2008, the MC led by the Minister of Commerce and Industry has made exploratory visits to Ethiopia, Turkey, Ukraine, Egypt, Sudan, Kazakhstan, the Philippines, Poland and Vietnam. The Saudi government is preparing a draft treaty that will be submitted to targeted countries to govern Saudi Arabia's Agricultural Investments Abroad.

Possibility of Establishing Partnership with Chinese Companies in Africa

The Saudi government encourages Saudi companies to join forces with specialized Chinese companies involved in agricultural production in Africa because of their strong presence in Africa. The government encourages Saudi companies to partner with their Chinese counterparts in livestock and fish production in order to benefit from Chinese expertise in developing and running agricultural investments in Africa.

Saudi Companies Implement King Abdullah's Initiative

-- The first shipment of high quality Ethiopian rice produced using facilities provided under King Abdullah's Initiative arrived in Saudi Arabia at the end of January 2009.

-- In early February 2009, a consortium of Saudi investors indicated plans to invest \$267 million in agricultural projects in Ethiopia and Sudan after completing feasibility studies. Also, Hail Agricultural Development Co (HADCO), one of the six large private agricultural companies in Saudi Arabia, announced its intention to invest \$45.3 million in Sudan to produce wheat and corn. It was announced that the Saudi government-owned Saudi Industrial Development Fund would provide soft loans to cover 60 percent of the total investment cost. HADCC, which was established in northern Saudi Arabia in the early 1980s, produces wheat, corn, dates, grapes, olives, animal feed, broiler meat, and table eggs.

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-- In 2008, SAVOLA Group, the largest retail chain and foodstuff processor in Saudi Arabia, announced its plans to invest millions of U.S. dollars in purchasing and developing thousands of hectares of agricultural lands in several countries including Egypt, Sudan, Ukraine, Brazil and Ethiopia. The firm aims at guaranteeing an uninterrupted supply of sugar and edible oils for its production facilities, with plans to purchase land and develop agriculture infrastructure to grow beet sugar, rice, edible oils (sunflower, corn, and canola) and other commodities.

-- Al Rajhi's International Investment Company disclosed at the December 13 symposium plans to spend at least \$400 million by 2011 to produce wheat, corn and sorghum in Egypt and Sudan in next few years. The firm has started the cultivation of 42,000 hectares in

the Egyptian Toshka project and expects the first harvest by the end of May 2010. In addition, the company provided information on its ongoing project in Sudan to cultivate sorghum on 52,521-hectares.

-- Jenat, another consortium formed in March 2009 by four Saudi companies (TADCO, Almarai, JADCO and Food Products Co) announced plans to invest \$40 million in Sudan and Ethiopia to produce wheat, barley and animal feed.

End text.

What the Saudis want to know about U.S. agriculture

¶12. (SBU) As noted above, the United States is one of the initial six countries that the royal decree authorized the Ministerial Committee to evaluate for possible Saudi agricultural investments. Saudi potential investors and government officials are aware of the availability of vast fertile agricultural land in the U.S. that could produce most of the strategic crops targeted by King Abdullah's Initiative. However, Saudi officials are seeking more information on U.S. rules and regulations governing foreign investments in the U.S. agricultural sector. They have asked specifically for the following:

-- Information on kinds of incentives that the U.S. and Saudi governments offer to attract foreign investment in the U.S. agricultural sector.

-- Rules and regulations that govern foreign ownership of U.S. agricultural lands.

-- The possibility of long term leasing of agricultural lands.

-- The cost per hectare of agricultural land for the different options (buy, lease, and/or joint venture).

-- List of states that produce the eight strategic commodities (rice, wheat, barley, yellow corn, soybean meal, oil seeds, sugar, and green fodder).

-- List of states that depend on rain fed cultivation versus irrigation based agriculture.

Comment

¶13. (SBU) We believe the Saudi government is committed to pursuing this initiative which allows it to foster the growth of Saudi companies and reduce aspects of food price increases. Doing so would have significant environmental benefits (especially in slowing depletion of nonrenewable fossil aquifers).

¶14. (SBU) The initiative's plan to invest in African countries also offers the opportunity to form partnerships to support our own foreign assistance priorities. Although the idea of Saudi farms in Africa may sound farfetched, the Kingdom has for years hired foreign managers and laborers to administer its farms and other agribusinesses (e.g., most Saudi wheat farms currently have Egyptian managers). We think the Kingdom may be able to replicate its agribusiness model in Africa successfully, especially since it probably will be willing to pay above-market prices for the food produced.

¶15. (SBU) In recent years, food security has not been a major problem in Saudi Arabia although food prices have become politically sensitive. The Kingdom's grocery shelves long have been fully stocked with a wide variety of cheap foods, not only filling the

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needs of large Saudi families but also serving the diverse tastes of its large expatriate workforce. However, food makes up a large percentage of the average Saudi family's expenses, and with 2009 per capita GDP just above \$13 thousand dollars (driven down 22% from last year due to lower oil prices and the international financial crisis), the Saudi government wants to prevent food insecurity from

creating political instability. Saudi food prices accelerated rapidly in 2007, causing significant public complaints and calls for government intervention. Older Saudis, like the King, still remember the days before oil production brought an end to hunger in the Kingdom. They view the United States as blessed with agricultural wealth in the same way that they have been blessed with prodigious oil reserves.

¶16. (SBU) We believe Saudi officials would strongly welcome the opportunity to develop investments in the United States. We would welcome Washington agencies' assessments of interest in this program, which we believe could both support job creation in the United States and potentially advance our foreign policy goals in some very poor countries. If Washington agencies believe this is worth pursuing, we believe it could play a very significant role in expanding our bilateral strategic relationship. End comment.

¶17. (SBU) Post requests EEB and USDA assistance to provide relevant information (see paragraph twelve) we can pass Saudi officials working on the King's initiative.

Smith